

§ 105-153.5. (Effective for taxable years beginning on or after January 1, 2014)

Modifications to adjusted gross income.

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

- (1) **(Effective for taxable years beginning on or after January 1, 2014 and before January 1, 2016)** Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

Filing Status	Standard Deduction
Married, filing jointly/surviving spouse	\$15,000
Head of Household	12,000
Single	7,500
Married, filing separately	7,500.

- (1) **(Effective for taxable years beginning on or after January 1, 2016 and before January 1, 2017)** Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

Filing Status	Standard Deduction
Married, filing jointly/surviving spouse	\$16,500
Head of Household	13,200
Single	8,250
Married, filing separately	8,250.

- (1) **(Effective for taxable years beginning on or after January 1, 2017)** Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

Filing Status	Standard Deduction
Married, filing jointly/surviving spouse	\$17,500
Head of Household	14,000
Single	8,750
Married, filing separately	8,750.

- (2) **(Effective for taxable years beginning on or after January 1, 2014 and before January 1, 2015)** Itemized deduction amount. – An amount equal to the sum of the items listed in this subdivision. The amounts allowed under this subdivision are not subject to the overall limitation on itemized deductions under section 68 of the Code:

- a. The amount allowed as a deduction for charitable contributions under section 170 of the Code for that taxable year. For taxable year 2014, a taxpayer who elected to take the income exclusion under section 408(d)(8) of the Code for a qualified charitable distribution from an individual retirement plan by a person who has attained the age of 70 1/2 may deduct the amount that would have been allowed as a

charitable deduction under section 170 of the Code had the taxpayer not elected to take the income exclusion.

- b. The amount allowed as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence plus the amount claimed by the taxpayer as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. For taxable year 2014, the amount allowed as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence shall not include the amount for mortgage insurance premiums treated as qualified residence interest. The amount allowed under this sub-subdivision may not exceed twenty thousand dollars (\$20,000). For spouses filing as married filing separately or married filing jointly, the total mortgage interest and real estate taxes claimed by both spouses combined may not exceed twenty thousand dollars (\$20,000). For spouses filing as married filing separately with a joint obligation for mortgage interest and real estate taxes, the deduction for these items is allowable to the spouse who actually paid them. If the amount of the mortgage interest and real estate taxes paid by both spouses exceeds twenty thousand dollars (\$20,000), these deductions must be prorated based on the percentage paid by each spouse. For joint obligations paid from joint accounts, the proration is based on the income reported by each spouse for that taxable year.

- c. Reserved.

- d. Repayment in the current taxable year of an amount included in adjusted gross income in an earlier taxable year because it appeared that the taxpayer had an unrestricted right to such item, to the extent the repayment is not deducted in arriving at adjusted gross income in the current taxable year. If the repayment is three thousand dollars (\$3,000) or less, the deduction is the amount of repayment less (i) the limitation provided under section 67(a) of the Code minus (ii) all other items deductible under section 67(b) of the Code, not to exceed the limitation provided under section 67(a) of the Code. If the repayment is more than three thousand dollars (\$3,000), the deduction is the amount of repayment. No deduction is allowed if the taxpayer calculates the federal income tax for the year of repayment under section 1341(a)(5) of the Code.

(2) **(Effective for taxable years beginning on or after January 1, 2015)**

Itemized deduction amount. – An amount equal to the sum of the items listed in this subdivision. The amounts allowed under this subdivision are not subject to the overall limitation on itemized deductions under section 68 of the Code:

- a. Charitable Contribution. – The amount allowed as a deduction for charitable contributions under section 170 of the Code for that taxable year. For taxable years beginning on or after 2014, a taxpayer who elected to take the income exclusion under section 408(d)(8) of the Code for a qualified charitable distribution from an individual retirement plan by a person who has attained the age of 70 1/2 may deduct the amount that would have been allowed as a charitable

deduction under section 170 of the Code had the taxpayer not elected to take the income exclusion.

- b. **Mortgage Expense and Property Tax.** – The amount allowed as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence plus the amount allowed as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. For taxable years 2014, 2015, and 2016, the amount allowed as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence shall not include the amount for mortgage insurance premiums treated as qualified residence interest. The amount allowed under this sub-subdivision may not exceed twenty thousand dollars (\$20,000). For spouses filing as married filing separately or married filing jointly, the total mortgage interest and real estate taxes claimed by both spouses combined may not exceed twenty thousand dollars (\$20,000). For spouses filing as married filing separately with a joint obligation for mortgage interest and real estate taxes, the deduction for these items is allowable to the spouse who actually paid them. If the amount of the mortgage interest and real estate taxes paid by both spouses exceeds twenty thousand dollars (\$20,000), these deductions must be prorated based on the percentage paid by each spouse. For joint obligations paid from joint accounts, the proration is based on the income reported by each spouse for that taxable year.
- c. **Medical and Dental Expense.** – The amount allowed as a deduction for medical and dental expenses under section 213 of the Code for that taxable year.
- d. **Repayment** in the current taxable year of an amount included in adjusted gross income in an earlier taxable year because it appeared that the taxpayer had an unrestricted right to such item, to the extent the repayment is not deducted in arriving at adjusted gross income in the current taxable year. If the repayment is three thousand dollars (\$3,000) or less, the deduction is the amount of repayment less (i) the limitation provided under section 67(a) of the Code minus (ii) all other items deductible under section 67(b) of the Code, not to exceed the limitation provided under section 67(a) of the Code. If the repayment is more than three thousand dollars (\$3,000), the deduction is the amount of repayment. No deduction is allowed if the taxpayer calculates the federal income tax for the year of repayment under section 1341(a)(5) of the Code.

(b) **Other Deductions.** – In calculating North Carolina taxable income, a taxpayer may deduct from the taxpayer's adjusted gross income any of the following items that are included in the taxpayer's adjusted gross income:

- (1) **Interest upon the obligations of any of the following:**
 - a. The United States or its possessions.
 - b. This State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State.
 - c. A nonprofit educational institution organized or chartered under the laws of this State.

- d. A hospital authority created under G.S. 131E-17.
- (2) Gain from the disposition of obligations issued before July 1, 1995, to the extent the gain is exempt from tax under the laws of this State.
- (3) Benefits received under Title II of the Social Security Act and amounts received from retirement annuities or pensions paid under the provisions of the Railroad Retirement Act of 1937.
- (4) Refunds of State, local, and foreign income taxes included in the taxpayer's gross income.
- (5) The amount received during the taxable year from one or more State, local, or federal government retirement plans to the extent the amount is exempt from tax under this Part pursuant to a court order in settlement of any of the following cases:
 - a. Bailey v. State, 92 CVS 10221, 94 CVS 6904, 95 CVS 6625, 95 CVS 8230.
 - b. Emory v. State, 98 CVS 0738.
 - c. Patton v. State, 95 CVS 04346.
- (6) Income that meets both of the following requirements:
 - a. Is earned or received by an enrolled member of a federally recognized Indian tribe.
 - b. Is derived from activities on a federally recognized Indian reservation while the member resides on the reservation. Income from intangibles having a situs on the reservation and retirement income associated with activities on the reservation are considered income derived from activities on the reservation.
- (7) The amount by which the basis of property under this Article exceeds the basis of the property under the Code, in the year the taxpayer disposes of the property.
- (8) The amount allowed as a deduction under G.S. 105-153.6 as a result of an add-back for federal accelerated depreciation and expensing.
- (9) **(Effective for taxable years beginning on or after January 1, 2015 and expiring for taxable years beginning on or after January 1, 2016)** The amount paid to the taxpayer during the taxable year from the Eugenics Sterilization Compensation Fund as compensation to a qualified recipient under the Eugenics Asexualization and Sterilization Compensation Program under Part 30 of Article 9 of Chapter 143B of the General Statutes. This subdivision expires for taxable years beginning on or after January 1, 2016.
- (10) The amount added to federal taxable income under section 108(i)(1) of the Code.
- (11) **(Effective for taxable years beginning on or after January 1, 2016)** The amount by which the deduction for an ordinary and necessary business expense was required to be reduced or was not allowed under the Code because the taxpayer claimed a federal tax credit against its federal income tax liability for the income year in lieu of a deduction. This deduction is allowed only to the extent that a similar credit is not allowed by this Chapter for the amount.

(c) Additions. – In calculating North Carolina taxable income, a taxpayer must add to the taxpayer's adjusted gross income any of the following items that are not included in the taxpayer's adjusted gross income:

- (1) Interest upon the obligations of states other than this State, political subdivisions of those states, and agencies of those states and their political subdivisions.
- (2) The amount by which a shareholder's share of S Corporation income is reduced under section 1366(f)(2) of the Code for the taxable year by the amount of built-in gains tax imposed on the S Corporation under section 1374 of the Code.
- (3) The amount by which the basis of property under the Code exceeds the basis of the property under this Article, in the year the taxpayer disposes of the property.
- (4) The amount excluded from gross income under section 199 of the Code.
- (5) The amount required to be added under G.S. 105-153.6 when the State decouples from federal accelerated depreciation and expensing.
- (6) **(Effective for taxable years beginning on or after January 1, 2016)** The amount of net operating loss carried to and deducted on the federal return but not absorbed in that year and carried forward to a subsequent year.
- (7) **(Effective for taxable years beginning on or after January 1, 2016)** The amount deducted in a prior taxable year to the extent this amount was withdrawn from the Parental Savings Trust Fund of the State Education Assistance Authority established pursuant to G.S. 116-209.25 and not used to pay for the qualified higher education expenses of the designated beneficiary, unless the withdrawal was made without penalty under section 529 of the Code due to the death or permanent disability of the designated beneficiary.

(c1) **(Effective for taxable years beginning on or after January 1, 2015)** Other Additions. – S Corporations subject to the provisions of Part 1A of this Article, partnerships subject to the provisions of this Part, and estates and trusts subject to the provisions of Part 3 of this Article must add any amount deducted under section 164 of the Code as state, local, or foreign income tax.

(c2) Decoupling Adjustments. – In calculating North Carolina taxable income, a taxpayer must add to the taxpayer's adjusted gross income any of the following items that are not included in the taxpayer's adjusted gross income:

- (1) For taxable years 2014, 2015, and 2016, the amount excluded from the taxpayer's gross income for the discharge of qualified principal residence indebtedness under section 108 of the Code. The purpose of this subdivision is to decouple from the income exclusion available under federal tax law. If the taxpayer is insolvent, as defined in section 108(d)(3) of the Code, then the addition required under this subdivision is limited to the amount of discharge of qualified principal residence indebtedness excluded from adjusted gross income under section 108(a)(1)(E) of the Code that exceeds the amount of discharge of indebtedness that would have been excluded under section 108(a)(1)(B) of the Code.
- (2) For taxable year 2014, 2015, and 2016, the amount of the taxpayer's deduction for qualified tuition and related expenses under section 222 of the Code. The purpose of this subdivision is to decouple from the above-the-line deduction available under federal tax law.
- (3) For taxable years beginning on or after 2014, the amount excluded from the taxpayer's gross income for a qualified charitable distribution from an individual retirement plan by a person who has attained age 70 1/2 under

section 408(d)(8) of the Code. The purpose of this subdivision is to decouple from the income exclusion available under federal tax law.

- (4) For taxable years prior to 2014, the amount excluded from the taxpayer's gross income for amounts received by a wrongfully incarcerated individual under section 139F of the Code for which the taxpayer took a deduction under former G.S. 105-134.6(b)(14). The purpose of this subdivision is to prevent a double benefit where federal tax law provides an income exclusion for income for which the State previously provided a deduction.

(d) S Corporations. – Each shareholder's pro rata share of an S Corporation's income is subject to the adjustments provided in this section and in G.S. 105-153.6. (2013-316, s. 1.1(d); 2013-360, s. 6.18(b); 2014-3, s. 2.2(a); 2015-2, s. 1.3; 2015-6, ss. 2.20(b), 2.22(b); 2015-241, ss. 32.16(a), (b); 2016-5, ss. 2.1(a)-(c), 2.2(a), 5.3(c); 2016-6, ss. 3, 4; 2016-92, s. 1.2; 2016-94, ss. 38.1(a), (b).)